

'06

# State of Utah

Comprehensive Annual Financial Report



For the Fiscal Year Ended **June 30, 2006**



**State Of Utah**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
For The Fiscal Year Ended June 30, 2006

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**CONSTITUTIONAL OFFICERS OF THE STATE OF UTAH**

Jon M. Huntsman, Jr. .... Governor  
Gary R. Herbert ..... Lt. Governor  
Auston G. Johnson, CPA ..... State Auditor  
Edward T. Alter, CPA ..... State Treasurer  
Mark L. Shurtleff ..... Attorney General  
John L. Valentine ..... President of the Senate  
Greg J. Curtis ..... Speaker of the House  
Christine M. Durham ..... Chief Justice, Supreme Court

**OTHER STATE OFFICIALS**

Richard K. Ellis ..... Executive Director, Dept. of Administrative Services  
John C. Reidhead, CPA ..... Director, Division of Finance  
John E. Nixon, CPA ..... Director, Office of Planning and Budget  
John E. Massey ..... Legislative Fiscal Analyst  
John M. Schaff, CIA ..... Legislative Auditor General  
Michael E. Christensen ..... Director, Legislative Research and General Counsel

**ACKNOWLEDGMENTS**

Report prepared by:  
Division of Finance, Accounting Standards and Financial Reporting Section  
Marcie L. Handy, CPA  
Eugene F. Baird  
Lynn G. Bodrero, CPA  
Julia D'Alesandro, CPA, CIA  
Lisa Donnelson  
Stephanie Fletcher  
Darin C. Janzen  
Lynda B. McLane, CPA  
Deborah S. Memmott  
Robert D. Miles  
Gary E. Morris, CPA  
Jason K. Nielsen, CPA  
David H. Pierce, CPA

Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.



**State of Utah**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended June 30, 2006

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## State of Utah

JON M. HUNTSMAN, JR.  
Governor

GARY R. HERBERT  
Lieutenant Governor

## Department of Administrative Services

Richard K. Ellis  
Executive Director

### Division of Finance

John C. Reidhead, CPA  
Director

November 13, 2006

To the Citizens, Governor,  
and Members of the Legislature  
of the State of Utah:

It is our pleasure to present the 2006 Comprehensive Annual Financial Report of the State of Utah in accordance with Section 63A-3-204 of the *Utah Code*. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State's management. To the best of our knowledge and belief, the enclosed data accurately presents the State's financial position and results of operations in all material respects in accordance with generally accepted accounting principles (GAAP). We believe that all disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

**Internal Control.** The State's systems of internal control over assets recorded in the accounting system have been designed to provide reasonable, but not absolute, assurance of safeguarding assets against loss from unauthorized use or disposition and to ensure the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

**Independent Auditors.** In compliance with state statute, an annual financial audit of the "State Entity" is completed each year by the Utah State Auditor's Office in conjunction with other independent audit firms. Their audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The State Auditor's report on the Basic Financial Statements is included in the Financial Section of this report.

Federal regulations also require the State to undergo an annual "Single Audit" in conformance with the Federal Single Audit Act of 1984, as amended, and the U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Information related to the Single Audit, including the schedule of expenditures of federal awards, audit findings and recommendations, summary of prior audit findings, and the State Auditor's report, is issued in a separate report and will be available at a later date.

**Management's Discussion and Analysis (MD&A).** The discussion and analysis beginning on page 14 provides an overview and analysis of the State's Basic Financial Statements. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it.

## PROFILE OF THE GOVERNMENT

**Structure.** As shown in the organizational chart on page 10, state government is divided into three separate branches: legislative, executive, and judicial. The duties of each branch are outlined in the *Constitution of Utah*, which can be amended only by a majority vote of the State's citizens, and in the *Utah Code*, which can be amended by the Legislature or by citizen initiatives. State government services provided to citizens include building and maintaining roads; providing public safety,



health, and environmental protection services to protect the general welfare of the state's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

This report includes all funds of the State of Utah and includes all departments, agencies, and other organizational units governed by the Legislature and/or the constitutional officers of the State. In addition to these *primary government* activities, this report includes information related to component units that are financially accountable to the State. Although such information is provided in this report, the MD&A and Basic Financial Statements focus on the primary government and its activities. Separately issued financial statements are available from the significant discretely presented component units and should be read to obtain a better understanding of their financial conditions. Additional information on all discretely presented components units can be found in the notes to the financial statements (see Note 1. A.).

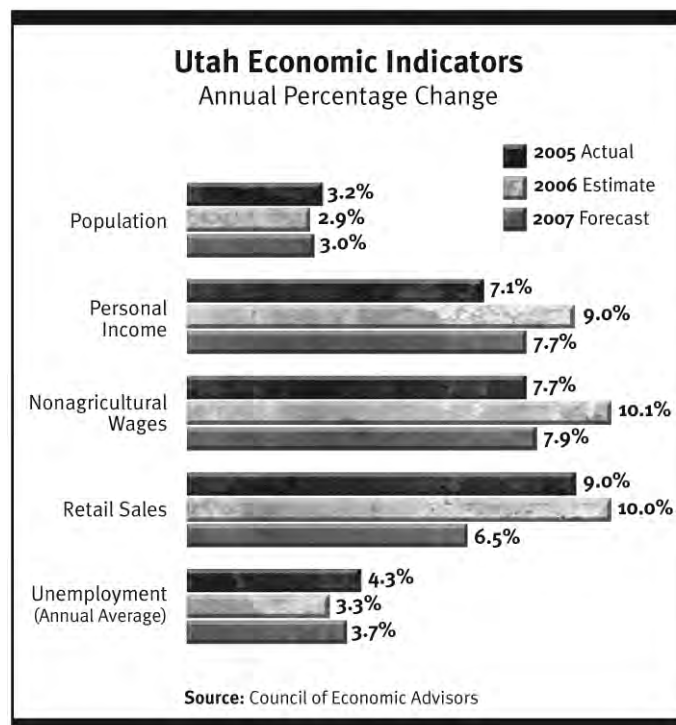
**Budgetary Control.** The *Constitution of Utah* requires that budgeted expenditures not exceed estimated revenues and other sources of funding, including beginning fund balances. Annually, the Governor is required to submit a balanced budget by fund, function (e.g., health), and activity (e.g., medical assistance) to the Legislature. The Legislature authorizes expenditures in the annual *Appropriations Acts*. The Acts also identify the sources of funding for budgeted expenditures. In the event actual revenues are insufficient to cover budgeted expenditures, the Governor must order budget reductions or call a special session of the Legislature to address budget issues. Adjustments to the budget may also be made throughout the year for changes in departmental or fund revenues so that departments and funds will not end the fiscal year in a deficit position. For additional information on budgetary control see the notes to Required Supplementary Information on page 113.

**Spending Limitation.** The State has an appropriation limitation statute that limits the growth in the combined appropriations from the General Fund and from income tax revenues for higher education to the relative growth in population and inflation. For the fiscal year ended June 30, 2006, the State was \$50.4 million below the appropriations limitation. The State is currently below the fiscal year 2007 appropriations limitation by \$18.7 million.

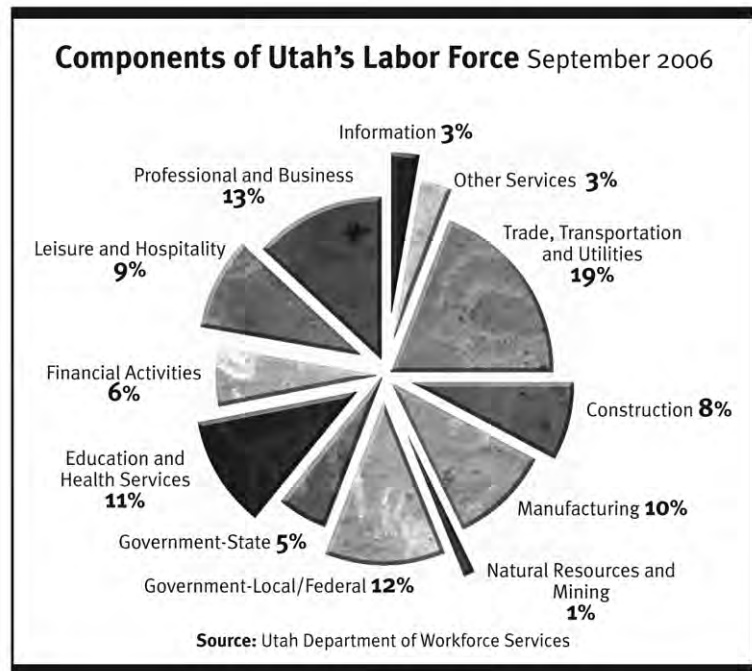
## ECONOMIC CONDITIONS AND OUTLOOK

**Economy.** Nationally, corporate before-tax profits increased 32.7 percent in 2005 and are expected to rise 18.6 percent through the end of 2006 as the economy begins to show signs of stabilizing. The national unemployment rate was 5.1 percent in 2005, and is expected to remain relatively unchanged for the next two years. Generally, Utah's economic indicators have mirrored these national trends, though the State's economy seems to be stronger than most states across the nation.

Utah's unemployment rate is expected to fall from 4.3 percent in 2005 to 3.3 percent in 2006. This trend represents a strong economy, with little economic slack. However, the State's unemployment rate is slightly higher than the ten-year low of 3.1 percent in 1997. With the continuing drop in unemployment, personal income and nonagricultural wages are expected to increase in 2006 by 9.0 percent and 10.1 percent, respectively. Retail sales are estimated to grow 10.0 percent in 2006 and 6.5 percent in 2007. In 2005, total construction value reached a new all time high of \$6.6 billion, a 28.7% increase from the 2004 record. Residential construction again led the way with a record \$4.7 billion in new construction compared to \$3.6 billion in 2004. Construction is expected to be up in 2006 with 9.1 percent job growth and 12 percent higher valuation than in 2005 as the economy continues to expand. Utah experienced net in-migration of approximately 41,000 in 2005, the highest level since World War II. Utah has had net in-migration for the past 16 years and this trend is expected to continue in 2006 and 2007.



**Industries.** Utah's nonagricultural employment is expected to increase 4.9 percent in 2006. From September 2005 to September 2006, every industry experienced positive employment growth led by natural resources and mining (17.5 percent) and construction (16.9 percent). Other industries experiencing strong growth in the past year were professional and business services (7.3 percent), financial activities (5.4 percent), education and health services (4.2 percent), leisure and hospitality (3.6 percent), manufacturing (3.6 percent), and trade, transportation and utilities (3.5 percent). Construction added 14,700 new jobs, leading the way for the second straight year with most new jobs added. Another growth area was the professional and business services sector, adding 11,100 new jobs where generally higher education levels are required and compensation is higher than jobs in other sectors. Other sectors that contributed to job growth were trade, transportation and utilities (7,900), education and health services (5,500), manufacturing (4,200), leisure and hospitality (3,800), and financial activities (3,700). The need to move more goods and raw materials for construction and manufacturing activities caused an increase in trade, transportation, and utilities jobs. Strong population growth created the need for more employment in the construction, financial activities, education and health services, and trade, transportation and utilities sectors.



**Outlook.** Utah's economy is expected to continue on the growth path that began in 2004. However, the shrinking pool of available workers and a slowing national economy may limit job growth slightly in the future. The State is positioned well for positive long-term economic growth due to its industrial diversity, population growth, and young and highly educated workforce.

## MAJOR INITIATIVES

Utah's economy continues to improve, providing approximately \$637 million additional income and sales tax revenue in fiscal year 2006. These additional funds were directed to priorities such as tax reform, economic development, infrastructure, and education.

**Tax Reform.** In an effort to moderate growth in government and stimulate long-term economic growth, numerous tax reform initiatives were passed. Sales and use tax reform initiatives are expected to reduce state revenues by \$55 million in fiscal year 2007 and \$90 million in fiscal year 2008. This includes a 2 percent annual reduction in sales tax on food of \$70 million and business tax reductions of \$20 million. In addition, during the 2006 Fourth Special Session, Senate Bill 4001, *Income Tax Amendments*, expanded existing individual tax brackets and reduced the top bracket for taxable years beginning January 1, 2006. The bill also created an alternative flat rate computation. For taxable years beginning January 1, 2007, taxpayers may calculate their individual income tax liability in two different ways and pay the lesser of the two calculations. The individual tax reform initiative is expected to reduce State revenues by \$66 million per year beginning in fiscal year 2007.

**Economic Development.** The Governor's economic development plan for Utah focuses on strengthening the business environment and developing industries that capitalize on economic trends and leverage the State's natural advantages.

Utah is known as a world-class research center and for its ability to commercialize research in new companies that make the world a better place. The State is also known for its skilled and educated workforce. To capitalize on Utah's unique resources, the 2005 General Session provided \$7.35 million in initial funding to the University of Utah and Utah State University to recruit and hire research teams, purchase research equipment, and implement a technology research and development initiative. This effort will target technologies with high commercial potential and nurture an entrepreneurial environment. The 2005 initiative was named the Utah Science, Technology, and Research (USTAR) Economic Development Initiative. During the 2006 General Session, Senate Bill 75, *USTAR Initiative*, greatly broadened the scope and funding by providing \$19.3 million ongoing monies beginning in fiscal year 2007 and creating the USTAR Governing Authority to

oversee activities related to the initiative. Senate Bill 75 also appropriated \$50 million one-time funding for fiscal year 2007, and provided bonding authorization for \$111 million to construct new lab facilities at the two research universities.

**Education.** The State provided \$121 million for fiscal year 2007 through a 6.0 percent increase in the Weighted Pupil Unit to fund increases in teacher salaries and benefits and increased operating costs. The State also appropriated an additional \$37.5 million to higher education for fiscal year 2007. This included \$21.9 million for increases in salary and benefits; \$5.1 million for increases in fuel and power costs; \$2.8 million for student financial aid; \$0.8 million for National Guard personnel tuition assistance; and various amounts for engineering, technology, and nursing initiatives.

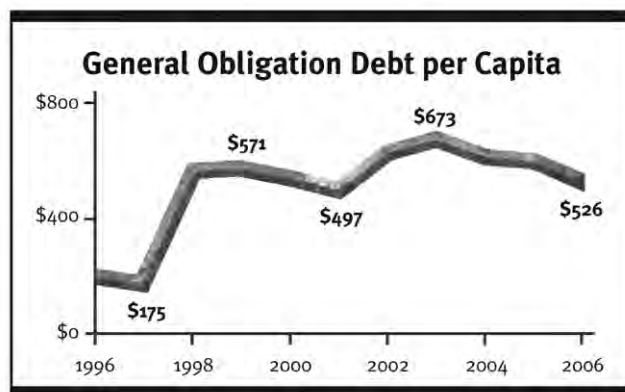
**Infrastructure.** The State has developed a national reputation for strong fiscal management. Continuing the “Pay-As-You-Go” plan to manage the State’s debt, for fiscal year 2007 the Legislature provided \$130 million of one-time money and \$20 million ongoing for capital development projects for renovation of the State Capitol and several other state buildings. To address the State’s maintenance needs, the Legislature provided a total ongoing funding package of \$63 million for capital improvements for fiscal year 2007, which included a \$6.8 million increase from the prior year appropriation. An additional \$2.5 million one-time money was added to mitigate life/safety hazards at state buildings. These totals represent the highest funding level ever appropriated to address the State’s maintenance needs.

In the past decade, highway funding has not kept pace with the increased number of individuals traveling on Utah’s roads. Therefore, funding for transportation was a major priority for both the Governor and the Legislature. For fiscal year 2007, the State appropriated \$201 million to the Centennial Highway Fund for statewide transportation issues, and an additional \$90 million ongoing money to be used for capacity and safety projects. House Bill 112, *Transportation Investment Act*, changed currently earmarked General Fund transfers from specific dollar amounts to 8.3 percent of sales and use tax collections. The transfer is estimated to be \$150 million for fiscal year 2007.

## FINANCIAL INFORMATION

**Cash Management.** As further explained in Notes 1, 3, and 4 to the Basic Financial Statements, cash is controlled by the State Treasurer or by other administrative bodies as specified by law, and investments are made in compliance with the State Money Management Act (*Utah Code*, Title 51 Chapter 7). All cash deposited with the State Treasurer by state entities is managed in pooled investment funds to safeguard assets and to maximize interest earnings. The Treasurer invests the cash, including the cash float, in short-term securities and other investments such as certificates of deposit, obligations of the U.S. Treasury, commercial paper, and repurchase agreements. Certain investment pools may invest in corporate bonds and equity securities.

**Debt Administration.** The State’s general obligation bonded debt jumped significantly in 1998 due to issuing bonds for highway construction, mostly for rebuilding I-15 in Salt Lake County. Total general obligation debt remained fairly stable from 1999 through 2001. In fiscal years 2002 through 2003, under budget constraints coupled with a low interest rate environment, the State elected to increase its debt by issuing more bonds for highway and building projects that otherwise would have been funded from current revenues. During fiscal year 2006, the State issued no new general obligation bonds. More information about the State’s long-term debt is found in Note 10 to the Basic Financial Statements.



**Risk Management.** The State is self-insured against certain property and liability claims. The Legislature established the Risk Management Fund to pay for commercial insurance or to accumulate reserves for the self-insured portion of certain property and liability risks. Revenues are generated from premiums charged to state departments, institutions of higher education, and local school districts. The property self-insurance limits for fiscal year 2006 were \$1 million per claim, with an annual aggregate of \$2.5 million per policy year. Generally, claims over the self-insured limits are covered by policies with private insurance companies.

**Pension Plans.** The Utah Retirement Systems (URS) defined benefit pension systems’ combined total net assets increased by \$1.4 billion, or 8.5 percent during calendar year 2005. The increase was primarily due to the increase in equity markets and increasing retirement contributions. However, even with the increase in total net assets, the average funded ratio of all systems decreased slightly from 92.4 percent at the beginning of 2005 to 92.2 percent at December 31, 2005, due to increases



in the actuarially determined pension obligations. Operations of the pension systems continue to be managed based on sound actuarial funding principles, thus protecting participants' future benefits. The URS management anticipates that investment earnings on a long term basis will continue to meet or exceed the actuarially assumed earning rate.

### **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the *Certificate of Achievement for Excellence in Financial Reporting* to the State of Utah for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the twenty-first consecutive year the State has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate. We are committed to this effort, and we intend to maintain a highly qualified and professional staff to make this certification possible.

### **CONCLUSION**

We hope this report provides data useful in evaluating the financial activity of the State of Utah. We express our appreciation to the budget and accounting officers throughout state government and to the Utah State Auditor's Office for their dedicated efforts in assisting us in the preparation of this report.

Sincerely,

A handwritten signature in black ink, reading "John Reidhead". The signature is fluid and cursive, with the first name "John" and last name "Reidhead" clearly distinguishable.

John C. Reidhead, CPA  
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Utah

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

# State of Utah Organization Chart

